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THE 1ST ICBB and CSR-UN CONFERENCE
International Conference on Business and Banking
Corporate Social Responsibility University Network Conference

Proceeding

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CONFERENCE PROCEEDINGS

THE 1ST ICBB and CSR-UN CONFERENCE
International Conference on Business and Banking
&
Corporate Social Responsibility University Network Conference

STIE PERBANAS SURABAYA

23-24 FEBRUARY 2010

SURABAYA, INDONESIA

FOREWORD

from

The Head of Committee

At this event of The 1st International Conference on Business and Banking held together with The 1st Corporate Social Responsibility University Network Conference, we would like to express our appreciation to Indonesian Bankers Association and Universiti Sains Malaysia as the institutions that support the conference.

This conference has been promoting around the university world wide and business organization in Indonesia and Malaysia, and there have been 86 abstract sent and fullpaper from different countries namely Australia, England, Thailand, Taiwan, The Phillipines, Malaysia dan Indonesia, with totally 41 universities and business organizations.

The Theme of the conference is The Problem and Solution of Global Financial Crisis, and since the event is also fro CSR University Network many titles on CSR come from both academicians and business especially banking industry.

This proceeding consists of 43 Full Papers including Five categories, namely:

- a. Marketing Management
- b. Human Resource Management
- c. Finance and Banking Management
- d. Accounting
- e. Corporate Social Responsibility

We would like to express our deep gratitude to the reviewers namely Prof.Dr.Tatik Suryani from STIE Perbanas Surabaya, Indonesia reviewing Marketing Management papers, Asst.Prof. Teay Sawyun from Assumption University, Bangkok, Thailand reviewing Strategic Management, Asst.Prof Zainal Ariffin Ahmad from Universiti Sains Malaysia reviewing Human Resource Management papers, Dr. Ishaq Batti and Dr Tulsi Rajyaguru reviewing Finance and Banking papers, Prof.Dr.Wilopo from STIE Perbanas Surabaya, Indonesia reviewing Accounting papers, Dr Reevany Bustami and Dr Elisha Nasrudin from Universiti Sains Malaysia, reviewing CSR papers

Head of Committe

Dr. Basuki Rachmat

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CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN DEVELOPING COUNTRY: ITS INSTITUTION AND VALUES TRANSFORMATION PROCESS⁷

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ABSTRACT

This research focuses on how corporate social responsibility practices have evolved over time in one of big companies in Indonesia's pulp industry. It underlines the transformation of CSR practices since the establishment to the position which the company has been growing rapidly. Through in-depth case study, we argue that the company has been successfully transformed not only its institution (process of institutionalization), but also its significant CSR values (process of internalization) within the company. Contribution of this research is as follows. First, by analyzing path-trajectory of CSR practices, it will enrich our understanding on how a big company as part of its global network develops its CSR practices, particularly in emerging economies context. Second, an extensive in-depth case study provides the clear evidences, milestones, and challenges of the importance of creating so-called CSR practices reflected local needs where the company exists. Third, in the end, this study proposes further inquiry how and which way the company should pursue its CSR practices while the growth of its activities becomes mature and or rapidly evolved.

Key words: corporate social responsibility, transformation of institution, transformation of values, Indonesian company

INTRODUCTION

This research focuses on how corporate social responsibility practices have evolved over time in one of big companies in Indonesia's pulp industry. It underlines the transformation of CSR practices since the establishment to the position which the company has been growing rapidly. Through in-depth case study, we argue that the company has successfully transformed not only its institution (process of institutionalization), but also its significant CSR values (process of internalization) within the company.

In the research conducted, we found that Company X applies the *Triple Bottom Line* (3Ps) Concept. How is the concept applied in its community empowerment program? What are the challenges and how it overcomes it? This research scrutinizes the implementation and transformation of community empowerment in Riau.

⁷ * Paper submitted to The 1st International Conference Business-Banking and Corporate Social Responsibility University Network Conference, held by STIE Perbanas Surabaya and University Sains Malaysia, Surabaya, 23-24 February 2010.



METHOD

This research follows the replication logic, rather than sampling logic: whether case companies chosen could provide rich information in the aspects of research constructs (i.e. Lee, 2003). Company X as one of the leading pulp and paper companies in Indonesia fits with these criteria.

Subsequent to a set of preliminary meeting agreeing the research framework and CSR literatures to be used, the process of the research was initiated by conducting the first on field research in the first medio of August 2007. Using a series of research phases, including desk study, interview and field visit on the beneficiary partners (*mitra bina*) of the Company X, the actors as well as public leaders in Riau, we paid three visits to Company X and its various empowerment areas program. Each visit lasted for less than a week until ten days.

We met and interviewed stakeholders, that comprised the beneficiaries, management of Company X, and public leaders. During our field visit, we spent half or even a full day to really observe directly the living of the local community being the beneficiaries of Company X. We sat together, enjoyed boiled corn and hot coffee in the midst of summer wind penetrating the wooden house located in the middle of oil palm plantation. Sometimes our chat was interrupted since they had to feed their cows, or clean its excretions that were to be used as fertilizer. Occassionally we also helped them in several tasks, including carrying the cutten-grasses.

After sunset, we moved back to the inn to discuss with the team and friends from Company X. Often evening discussions were not enough and had to be resumed in the morning in Company X's office in Pelalawan. This process happened in every visit.

Back to Jakarta, we utilized the on field data to write report and conduct triangulation with various data, information and informants. Eventually, the final draft was presented in the focus group discussion in Jakarta in the middle of May 2008 before the practitioners and academicians competent on CSR, aimed to gain feedback from them.

The main informants are president, directors, and senior manager HR, CSR and environment. Following the standard procedures in doing case study, we used open-ended and semi-structured questionnaire (Creswell, 1998). Creswell (1998) suggests that good case study should meet the standard of quality verification, therefore we conduct triangulation of information---searching for the convergence information---relates directly to data situation in developing case study from data sources, theory, methods, and us as investigators. In addition, member checking is done by sending the rough draft of writing to the informants after the entire interviews finished. All the interviews are recorded and field notes are also created.

The rationale of this study that makes this study as a single-case study is to confirm, challenge, or extend the theory (Creswell, 1998, Yin, 1994: 38). We use within-case study analysis in this study because several themes identified earlier are being confirmed, challenged, or extended within a single case.

BRIEF DEFINITION OF CSR

Many experts or international organizations have proposed the definition of Corporate Social Responsibility. Some of the difinitions are as follow: McWilliams and Siegel (2001) defined CSR as a set of company's actions occurring to improve its social products, extend its reaching beyond the company's explicit economic interest, with consideration that such an action is not obliged by the law.



Meanwhile Magnan and Ferrel (2004) defined it as business attitude, where the decision making process taking into account social responsibility and gives more balanced focus on the interest of various stakeholders.

In his book, *Cannibals with Forks The Triple Bottom Line of 21st Century Business* (1997), John Elkington argued that a company that shows its social responsibility would give attention to the advancement of the community, particularly the locals (people), environment/earth (planet), and the increasing of company's quality (profit). *The World Business Council for Sustainable Development* (WBSCD) defined CSR as a business commitment to contribute for sustainable economic development, working together with the workers, their family and local community (Jamali and Mirshak, 2007:243-244).

Furthermore, the study conducted by Hemingway and MacLagan (2004:33) quoted the CSR definition given by *The Confederation of British Industry* (CBI), which stipulated that CSR obliges company to admit that they have responsibility to be accountable to publics, not only through the financial performance record, but also other records associated with the community and environment. This agency added that CSR in broader sense expects the company to promote human rights, democracy, community repairment and sustainable economic development across the world.

Among the definitions on CSR, it is important to refer to Carrol's (1979) and Wood's (1991) opinion. As was quoted by Jamali and Mirshak (2007), Carrol suggested the definition of four parts of CSR which is integrated into a conceptual model of Corporate Social Performance (CSP). Carrol differed four types of CSR, namely (i) social responsibility in economy, (ii) law, (iii) ethics, (iv) and authority/responsibility coming out of their own will/decision.

He renewed the definition in 1991, by adding the term 'total social responsibility' and arranged it in a pyramid. In the pyramid, socio-economic responsibility placed at the bottom, followed with legal, ethics, authority and comprehensive responsibility at the end. According to this perspective, the four components of social responsibility are aggregate in nature. For example, a company implementing ethic responsibility means it has already fulfilled its economic and legal social responsibility.

Then, Wood (1991) made a revision and refined the CSR definition while put it in a broader context, where it is afterwards considered not solely as a single concept. He also related CSR with CSP concept just like Carrol did. According to Wood, CSP is a business product of a company and is a direct configuration of social responsibility principles, social responsibility, as well as the result that can be linked with the social relations in the company (Jamali and Mirshak, 2007:247).

CSR definition can also be seen according to the perspective utilized. For example, *Resource-based View* (RBV), which is a perspective that regards the company's competitive advantage roots in internal resources and company's capability (Barney, 1991). According to this perspective, CSR can give benefit both in internal and external side of the company (Branco and Rodriquez, 2006).

Company's reputation can be seen as intangible assets that can bring positive or negative impact to the decision to invest or not in the company's social responsibility. A good reputed company will improve workers' motivation, commitment, and loyalty to the company in addition to attracting quality workers.

From this definition we may conclude that the very issue of CSR is that a company bears an obligation to work and fulfill the interest of broader stakeholders. As



Jamali and Mirshak (2007:244) suggested from *Business for Social Responsibility* (BSR, 2001), CSR is a set of management practice that makes the company maximizing the positive impact of its business operation to the society. In other word, the company has to be able to manage its business as such that it fulfills or even goes beyond legal, ethic, commercial and public expectation on company's business activity.

CSR BENEFIT

CSR Internal Benefit

In his article entitled *Corporate Social Responsibility and Resource-Based Perspectives*, Branco and Rodrigues (2006) distinguished two CSR benefits associated with competitive advantage of a company, respectively from internal and external aspects. Internally, the benefit comprises, *first*, the development of an activity related to human resources. A set of human resource development activity can be achieved by creating high skilled employees. Quality employee will contribute more effectively to the HR management system. For instance, through the improvement of employees' loyalty and moral, decent wage, clean and secure environment, open training opportunity for all employees, and the presence of profit that can better employee's financial condition.

Second, the prevention of pollution, and reorganization of production process and raw material flow, as well as a good relations with supplier. This will lead to the improvement of company's performance. Some activities that can be done are the use of recycled raw material and replacing the raw materials that are not environment-friendly.

Third, creating a good corporate culture, human resource capability and organization. The introduction of CSR expectedly will create strong employees' commitment to the company and their eager willingness to keep learning. Inter-function integration within the company is also expected to occur afterwards. In addition, there should also be improvement in employees' participation in the company and in their skills.

Fourth, financial performance. The researches conducted in all parts of the world, though didn't give us any uniform pattern, has mostly indicated a mutualism relation pattern. It means that after the introduction of CSR, the financial performance of the company, especially the share price for the companies who have gone public, became better. The research conducted by Lorraine *et.al.* (2004:7-26) further explained that the quality of environment contributed by the corporate doesn't only influence the financial performance of the company itself, but also improve the possession of the investors.

CSR EXTERNAL BENEFIT

Some external benefits from the CSR implementation in a company comprises, *First*, the improvement of company's reputation as the bearer of social responsibility. This concerns with a better service to the external actors or stakeholders. A good company reputation will improve consumer loyalty to the products and services produced. Apart of that, it will also attract more investors to the company, in addition to extending business partner network and reduce business risk.

Second, CSR is actually one of a good product differentiation. That means, a product that meets environment friendly requirements is a result product of a socially responsible company. Therefore, the company needs congruence between the social activity with the company's own particular characteristics. This characteristic influences the expectation of the stakeholders on how the company should act. Therefore, the



company should be capable of arranging and managing properly matters related to stakeholders. Furthermore, it should also be more actively involved in the social issues that are part of company's concern, and selects them wisely.

Third, conducting CSR and opening CSR activity on public scale is a good communication with the community. In turn, all will help creating a better company's reputation and image. Hence it will help the company and employees to build a tie with the community in cohesive and integrated manner. With a better reputation and image, the company cannot only build a good relations with the government, but also causes its able to make a premium price for its products that has met the standard of environment protection.

Lastly, CSR contribution to the company's performance can be at least in two forms, namely (i) positive impact occurring as incentive (rewards) of the company's positive behavior. This contribution is often referred to as opportunities; and (ii) company's capability to prevent any consequence from a bad deed or also known as *safety nets* for the company.

CSR IMPLEMENTATION

Establishment Stage: Start with Community Development (CD) Program

It was turbulent time in August of 1999, and yet Company X became an anomaly. The severe impact of the monetary crisis was still prevailing: hundreds of big companies closed, the taipans moved their capitals abroad. However, Company X, in contrast, gave signal to strengthen its ground on Lancang Kuning Lan (Riau) by starting a community development program, or new paradigm community development: Riau Community Empowerment Program (PPMR).

Quite different with others, Company X during that time flowed more investment in the area by launching a billion rupiahs community empowerment program. In fact, a social activity has never been a promising investment, and that was indeed the anomaly of the company.

On its initial presence in Riau, Company X had already had a community development program. And yet, the concept and method of the community development activity at that time was not clear yet. The program at that time was rather incidental and charity, in form of direct donation to the society. Later it proved not working as expected.

The Director of Common Service of the Company X recalls the initial condition of CSR implementation of Company X that time. "The activity had been there indeed, but sporadic, top-down, we gave what the community needed". He told for example about the donation of a generator around the plant. However, he found later that the charity was not educative and even generated new problem. "After we gave them generator, which at beginning worked properly, it took only months until the generator stopped working, and finally we found out that it run out of oil, and people wanted us to supply them the oil again."

Other than philanthropy motivation, the community development activity at that time was pushed with the need for compliance to the obligation set by the government, which is to conduct the *Bina Desa Hutan* (Forest Village Empowerment) Program in 1992, or *Pembinaan Masyarakat Desa Hutan* (Forest Village Community Empowerment) in 1997. Furthermore, what encouraged the company to renew and sophisticate its



community development program was not external factor. Instead, it was based on the company's awareness on the importance of company social responsibility to the people and environment as part of its attempt to maintain the business.

As the saying, 'wherever you are, respect the local rules', as a world class company born in Riau, it felt distracted with the fact of high level of poverty in the region. A Jakarta-based newspaper, quoting Riau governor's comment, mentioned that 40.05 percent of 5.5 million of Riau population are living in poverty (Elyas *et al*, 2005). It is quite ironic, recalling Riau is an area full of resources, including oils and vast amount of forest.

At the same time, there was a growing awareness in the company that their presence in the region should also have wider social inter-connection with the local community in harmonious way. As one of the local saying, "*tali berpilin tiga*" (three elements row), Company X attempted to make *people, planet and profit* principles as one. That means its operation should have commercial benefit (commercially viable), with also extended economic development (economically sound). No less important is to meet the social and international environmental standards.

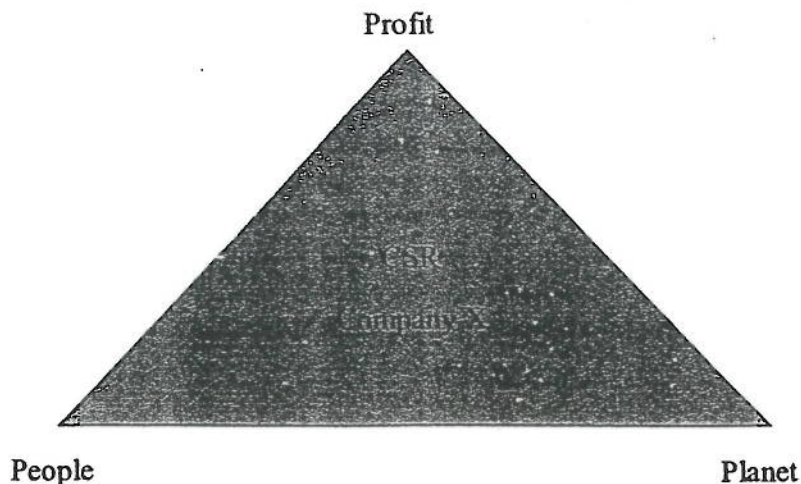
In a more simple way: Company X wanted to be part of contributors to the local economy and empower the community, instead of merely pursuing profit. This marked its awareness on corporate social responsibility. As the preliminary step, Company X decided to make a hearing on what are wanted by Riau community in association with its community development program. An interactive dialog was then held in 1999 involving 125 people from various elements of the community, from bureaucracy, academicians, public leaders, culturalist, press, and student activists (Arpi and Sihotang, 2005; Elyas *et al*, 2005).

DEEPENING STAGE: COMMUNITY DEVELOPMENT WITH NEW PARADIGM

As the follow up, the company later held a workshop which resulted in its community development program with new paradigm. The PPMR (the name of the program) was a new phase for the company's community development and also for the whole country, marking the end of charity nature of similar program and the shifting towards being a conceptual, methodological and comprehensive activity. Furthermore, it also established a special department. Company X on the other hand appointed a prominent concept maker and practitioner from Riau who at that time was still assigned as member of Commission VII of the National House of Representatives.

In various presentations conducted by the company's management, the tracing of company's internal documentation and direct interview, it found to adopt the *Triple Bottom Line* concept from Elkington (1997). The company also embraced the definition from *The World Business Council for Sustainable Development* situated in Geneva, Swiss, for the community development concept as depicted in the following figure.

Figure 1
3 Ps CONCEPT



The selecting of this strategy brought about consequence that the company should show its social responsibility by paying serious attention for the sake of community advancement, particularly referring to the locals (people), environment (planet), as well as improvement of the company's quality (profit). The company then chose three grand strategies. First, concern to community is to be done by giving opportunities for community development and reduce poverty level. Second, the company is committed to keep preserving the ecological diversity and the environment in general while running its business activities. Third, it attempts to ensure the supply of renewable, high quality and cheap wooden fiber that is internationally competitive, so that the company's operation will be proper for economy as well as environment at the same time.

The integrated farming system (IFS/SPT in local language) is a farming program integrating three fields of farming: farm, agriculture, and fishery. The core activity of the program is cow breeding. There is particular reason why cow breeding was selected as the main program of the empowerment. During the first year (1999), PPMR held two main programs, namely Integrated Farming System as its new program and Social and Infrastructure Programme (SIP) supported by 8 billion rupiahs as budget for half a year, which was directly approved.

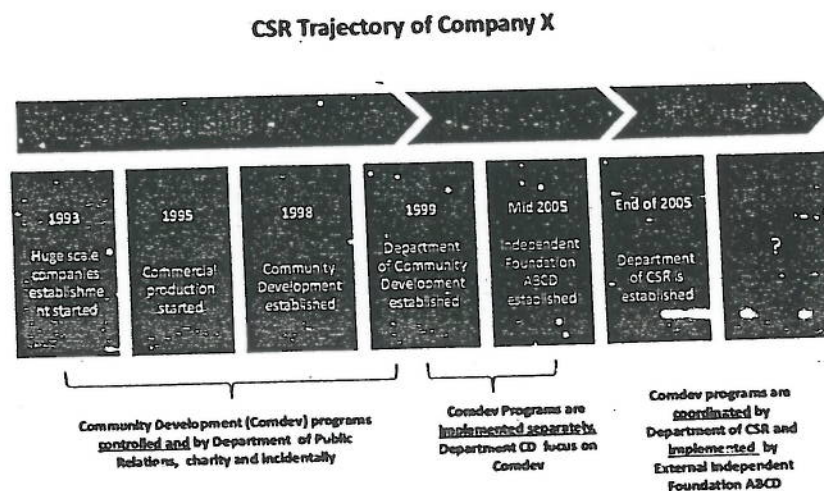
However, later the IFS and Sip programs were considered insufficient to be the instrument for community development. In 2000, the department of PPMR released its new program, named Vocational Training (VT), and also Small and Medium Enterprises Development Program in 2001. Since December 2001, PPMR has been developing four community development programs, namely Integrated Farming System, IFS; Social and Infrastructure Programme, SIP; Vocational Training, VT; and Small and Medium Enterprises, SMEs.

TRANSFORMATION STAGE: THE BIRTH OF ABCD FOUNDATION

Figure 2 shows the historical phases of community development in Company X. Since the plant founded established, the community development program implementation is positioned under the public relations department, focusing on

incidental program and charity for about 5 years until the formation of PPMR in 1999, until at one certain point the company managed to create the more developed community development program.

FIGURE 2



Source: Yayasan ABCD, elaborated by authors

The invention was ABCD Foundation. After running PPMR since 1999 and changed the face of Pelalawan City through the poverty alleviation program, Company X made a leap by establishing ABCD Foundation; an independent foundation dealing with community empowerment and assistance. It is through this institution various community development programs was run and reached up the whole Riau area in a more effective manner. Proclaimed in July 2005, ABCD Foundation ended up the six year PPMR period in the province, and started the new phase of the community development concept and methodology of the company.

To certain extent, by establishing ABCD Foundation 'cut off' Company X's intervention in its own community development activities. When the program initiated in 1992, the activity was put under the coordination of public relations department. So was the case when the PPMR was launched in 1999, the organization was also directly affiliated with Company X.

However, it's different case with ABCD Foundation. For the Director Executive of the foundation, the birth of the foundation he leads is a matter of certainty. He argued that the foundation is actually the output of the PPMR performance evaluation for six years. It took along the Company X's flag recalling the fact that it has only limited space in this matter.

That's the reason of which one of the reasons of the foundation's establishment is: "We want to improve the influence of the program or extend the community development programs. By evolving to be an independent foundation, the institution has wider space to work in. A small example of this is the foundation then was allowed to hold a community development cooperation program with the local government

(Pemda) and other institutions“(interview with Executive Director Foundation of ABCD). Director of Consultant B, which is the consultant for community development program implementation since 1999, approved this. “The establishment of ABCD Foundation gave us wider space to contribute to Riau people,” he stated. This is a further endeavor to help alleviating the poverty in Riau.

When the program was using the company's name in the past, the local government or institution tended to be more reluctant to cooperate. It is the independence that adds the foundation's value. Let alone, the foundation current status that is separated from the company doesn't make the latter cease its contribution to the program conducted. “The budget given by Company X to CSR program run by the ABCD Foundation remains the same, no less,” said one of the senior officers at ABCD Foundation.

With independent status it possesses now, ABCD Foundation has the authority to add its income through cooperation with other parties. For instance, the foundation once had cooperation with local government of Nangroe Aceh Darussalam (NAD) to be a training instructor in the province.

The opportunity now open to take a partner has made the source of income for the program goes beyond one source (Company X). “It used to be from the donation given by Company X, but now we also get aids from Aceh local government,” said one of the foundation's senior officers. It certainly promoted new opportunities for the foundation in the future, that is, to be an independent consultant agency. The community development program it runs also proved to have brought spirit of change. If in the past, the community development concept the company applied oriented more on commodity, currently the program has shifted its orientation to the community. “The community development program of ABCD Foundation attempted to focus on the improvement of community's self-reliance,” explained one of the senior officers. Currently, the program is no longer charity in nature, but it also generates independency, participation as well as responsibility of the people.

DISCUSSION

The establishment of ABCD Foundation is a matter of certainty, indeed. This is thanks to the good will to extend the company's contribution to the Riau local people, and for that reason, it is appropriate to give the organization a legal cover.

Launched in 1999, PPMR is an important marker of the Company X's roles in community development. Being more conceptual compared to its predecessor in 1992, it brought about deeper and wider impacts to the community. Nevertheless, despite all the capacities and superiority, it even still has several weaknesses worth to be noted.

When the community development program was run by the company itself, for example, the implementation was too rigid and impractical since it had to comply with the strict company regulation for instance, in purchasing goods for the beneficiary candidate. Thanks to the complicated bureaucracy, a good that is supposed to be able to get in a week didn't come until two months later. This is due to the purchasing process having to get through a complicated tender in the company. In addition, the CD program conducted by the company itself tended to be too tolerant. When the program run made a mistake or had problem, the company tended to forgive easily. “Tolerance upon self mistake was bigger, indeed,” said the Executive Director of the ABCD Foundation. It changed totally when the program was delegated to an independent institution such as ABCD Foundation.



Other than that, the implementation of the program will be more flexible since it allows the foundation to make some adjustment on field according to the need. Purchasing, for example, now doesn't have to be conducted by a company with legal status, and hence even farmer can supply the good needed, to whom the foundation can directly purchase it. The payment system doesn't either have to be in credit just like in the company, but it can be done with cash. Another advantage of this is that the evaluation on the community development activity program result becomes even stricter. "Tolerance for mistake has become stricter now," said the Executive Director of the foundation. Company X as the one giving the donation will definitely always assign a consultant to evaluate ABCD Foundation. Furthermore, the institution is also demanded to be open and it should undergo auditing process by external auditor.

Along with the change, the community development process now knows no time limit. Whereas, in the past the employees and company were limited by time. If employee works until late, it would be counted as overtime, and according to the law, the company has to pay the overtime of its employees.

This issue has been solved when the foundation was established. The employees joined the institution voluntarily. So anytime they would be happily do their job in assisting the farmers and other beneficiaries. "meeting the locals should know no time limit." Therefore, the meeting between assistant with the beneficiary members often takes place at night, since the latter have to work during the day. Even though after joining the foundation the volunteers can no longer receive various bonuses from the company, they never complain since they do realize that what they are doing is a matter of choice.

Since the establishment of the foundation, local people as the Company X's stakeholders have become more open in assessing the company. They don't doubt to express their aspiration and opinion. This is quite contrast compared to the prior engagement when the program was still embedded with the company's logo and label. "At that time, people were not so open," said the Executive Director. Now they don't hesitate anymore because ABCD Foundation puts itself as the bridge between the people, with all their aspiration with the company, so that openness becomes reality. Information is always distributed fairly. "We never close things up, and hence we always tell to the people that ABCD Foundation is indeed from Company X," he added. However, methodologically, the institution now is different with Company X, and thus it has also shaped people's opinion, leading them to perceive and believe that the foundation is truly independent.

In addition, the basic difference between community development implementation by Company X and ABCD Foundation is situated on the methodological orientation approach. The company is always oriented to result, while the foundation focuses more on process. "For the company, community development program is considered as good and succeed if it can see a lot of chilli plantation and well breeding cow. It always put orientation on result and product," the Executive Director mentioned this is different with ABCD Foundation that always puts process as its orientation, without neglecting the importance of result and product. "It is truly important (the result and product), but the process is even more important."

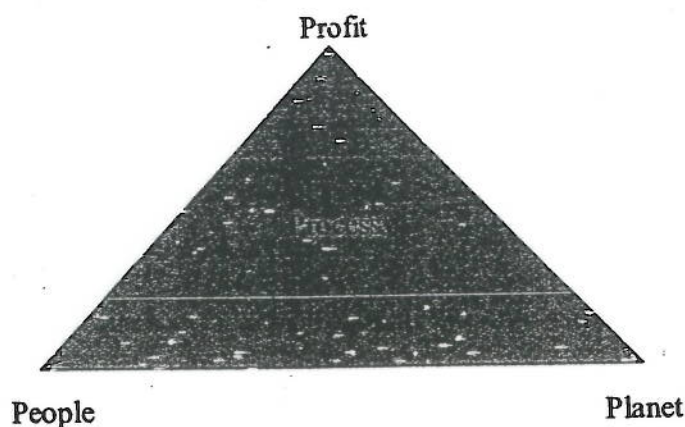
The later opinion has good reason indeed, recalling the fact that as long as the community manages to maintain good ethics and spirit, it will naturally have higher participation and self-reliance. ABCD Foundation has set a measure of success. To determine it the foundation utilizes two parameters, namely, qualitative and quantitative

ones. The quantitative parameter is based on the improvement of community life standard, while qualitative one is measured from the change of people mindset towards themselves and their families' future.

Institutional transformation and CSR value internalization on Company X cannot be separated from the presence of external consultant on community development that possesses national scale reputation, Consultant B. The Consultant support the program with its concept of "assistance" in methodological manner to the CSR implementation on Company X. "We don't want the company's community development program to lose its spirit because it only applies the triple bottom line principles", said the Consultant B Director. The consultant's role is too "bridge" between "People-Planet-Profit" by keep finding methodological formula in form of community development principles. According to him, the 3Ps concept is non-methodological. "Therefore, the consultant's position is to assure that the 'process' that is based on the community development principles in implementing the "People-Planet-Profit" paradigm.

According to the Director of Consultant B, Company X's CSR currently doesn't only apply the *triple principles*, but it has indeed gone beyond to the *quadruple bottom line principles* as shown on figure 3. The additional triangle means the process situated in the middle of *profit-planet-people*. The form of the process here could be: *First*, how to make PPMR as the medium or forum of interaction that can bridge the interest of external and internal management in addressing social issues occurring during the company's operation. *Second*, how to give understanding on management on the importance of community development effort. The result of this is that 90 percent of the company's leaders pose no objection.

Figure 3
4Ps Concept of CSR Company X



The lasting of a program truly takes hard work and commitment from all management levels. "CSR is built-in in the company's operational program", the Executive Director of Company X said. Within the company's supply chain, there is social and environmental responsibility, he added. He understands how to internalize CSR values and practices to both internal and external stakeholders. "CSR creates sustainability of the business, and hence its presence is a must", he explained. Even though it is not regulated by law, but it is a must and therefore every company ought to



implement it.

The Company X Director of CSR said, "CSR works need 24 hour commitment, because it's the matter of relating with the community. Even weekend often be spent with the beneficiaries on field". Often he also takes his family to come to the field. The Executive Director of Company X underlined, "In realizing CSR at Company X, all parts of the team feel important because they all know that they have role to play".

The Essence of Company X CSR: Internal Transformation of Values

The company's CSR program has been transforming from time to time according to the need. In accordance with the commitment and hard work of every element in the company, from the founders, top management, employees in general, the program implementer and external stakeholders beyond the company, including local government, NGO, funding institution, as well as – last but not least – the beneficiary community itself.

CSR these days has transformed, from retaining the belief of Milton Friedman who said *the business of business is business* into an effort to systematically and conceptually develop the community, with a firm methodological root. A company's social responsibilities gives benefit to the community socially, while also protect the environment at the same time.

The Company X's CSR transformation moved from the extreme left, which is based on economic consideration, to the right one, which is based on the moral philosophy in doing business. The transformation also describes that CSR that takes form of charity is no longer sufficient to meet the present need. Instead, it has to be done in comprehensive and conceptual manner.

Having a good will (*raison d'être*) that becomes the basis of CSR transformation is the most important factor. The Company X management initiated this with internal awareness on the importance of corporate responsibility to the people and environment as part of its attempt in maintaining the business. Thus, it is not the external pressure that became the major cause of the company's transformation, but it's rather the company's willingness itself; the willingness that is rarely possessed by other companies at the same level, and hence this is what differs Company X with other business entity.

This shifting proves that Company X's CSR has direct relation with the business sustainability. The CSR has been integrated in every of the company's business operation in every part of supply chain activities. In turn, the comprehensive CSR implementation brings about positive impact to the company's brand and reputation, so that the products then became widely renowned in international market as products that utilize valid and environment friendly raw material, and processed by taking into account the safety procedures and decent work principles. This is indeed the essence of CSR that gives contribution to the sustainability of the business.

In addition to that, and which is the most important thing is that Company X's CSR has proven that full support from the top management is a certainty. It is this support that changes CSR to become not merely a periphery of the company operation, but in fact, it makes an integral and inherent part of its business operation. At this point, CSR, which is usually the philosophical basis that underlies the company's business has manifested in the internal stakeholders' life, as well as the external stakeholders'. The CSR components comprise values such as greening the supply chain, environment, community empowerment, human resource development, volunteerism, and stakeholder



engagement.

CSR values such as greening the supply chain, environment and human resource development, or which can be categorized as the part of the internal stakeholder interest, has been fulfilled well with international standard regarding the raw material input, its processing, until the output produced. Also included is the involvement of Group Z Business as the holding company of the Company X in the business association membership for sustainable development and the partner of United Nations Environment Preservation. In addition, it also has something to do with the human resource development that is attained through a transparent and clear recruitment process, good and systematic capability and career development, salary system, compensation and benefit attained by the employee until other good incentive packages (beyond other average companies in the similar industry).

Meanwhile, the values that can be categorized as the part of the external stakeholders' interest can also be realized by the company in excellent manner during this eight year period. The community empowerment program has massively transformed together with the Riau people as such that one of the programs, which is the integrated farming system, has gained international recognition. These various community empowerment programs have given benefit to Riau people, and to some extent, the beneficiaries of the Company X's empowerment program through ABCD Foundation have enjoyed an improvement of life standard as well as mindset change in positive sense.

The success of CSR program through community empowerment has managed to create an interrelation between the stakeholders (stakeholders engagement), be it with the local government, NGO, finance agency, university, other companies, as well as community in general. Among the evidence is the establishment of Loan Cooperative (*Koperasi Simpan Pinjam*) which is the collaboration between ABCD Foundation with Bank Muammalat Indonesia Pekanbaru. It is the cooperative that provides funding for the beneficiary partners of the foundation, who also become the members of the cooperative.

The cooperation marks the beginning of exit strategy from the community empowerment effort that was initially funded with Company X's budget (through PPMR as well as ABCD Foundation) until the community becomes self-reliant and is ready to use the credit with more commercial purposes.

Truly, this is an undeniable evidence of a transformation of CSR activities that began with charity, community empowerment, into an independent community (empowered community). The end of this is that the local community becomes capable of being economically independent, so that they can possess a more critical and advanced mindset. At the end, a community with such a mindset will be able to contribute to the social change and development, and they will be capable of string for their rights and do their obligation in social life, be it in term of economy, politics, law, and creating a better and fairer social order.

Last but not least, is the fact that CSR elements such as described on the above values have actually been initiated and done by Company X. That means, long before any formal CSR regulations occurred and became widely accepted by business community, Company X had already done that at the first place. This fact shows the visionary nature of the founder and top management of the company.

Company X CSR Institutional Transformation

The most phenomenal invention of Company X's CSR transformation is the establishment of ABCD Foundation. A transformation in thought about CSR has also brought about institutional transformation, from charity that was conducted by the PR of the company into an independent foundation. In the beginning, the scope and scale of the company's social responsibility activity was very much limited, and the institutional change has made its current capability that manage to attain its noble purpose of contributing to Riau people in its wider sense. The company hence has already gone beyond merely thinking of its business activities, but instead it has already come to think and deal with various matters beyond its core business activity.

What is the difference with other companies that also have CSR activities? It definitely lies on the long trajectory phase that has been taken and undergone consciously by the Company X through its community development programs up to the establishment of independent institution that plays wider role in society. In another word, the decision to establish an independent institution has historical and ideological power as the result of community development conceptual discourses through "3Ps" concept into the practical level. So, it is not an instance choice to make.

Observing the Company X's CSR transformation is an exciting process. Organizationally, the decision to form a special department to deal with community development is separated from the public relations department, so that the establishment of an independent external community development foundation shows a shift of paradigm of the founders as well as management of Company X. This is also the manifestation of the company's total commitment to serve its stakeholders by contributing to realize 3P's (People, Planet, Profit) in a more serious manner. It has even now already implemented quadruple bottom line, instead of merely triple bottom line, where there is the process element put between the other 3P's.

Through ABCD Foundation, CSR has found its new form and concept, as well as leaving behind traditional definitions on CSR, which is now more that just a project for empowering community around the plant. ABCD Foundation is a CSR in its expansive and gigantic form - in certain occasion, it take s over local government's task of empowering community and alleviating poverty. This is indeed evidence that for the sake of business sustainability, the company can no longer think only about its business interest, let alone by harming the community or other stakeholders where the company operates.

CONCLUSION

First, the transformation of CSR essence from a mere charity into a comprehensive program for community empowerment with exit strategy to prepare the vulnerable community to become empowered one who is capable of using commercial credit.

Second, CSR institutional transformation from PR department affairs into an independent foundation established for dealing with community empowerment issues, which is the ABCD Foundation.

One of the challenges faced by big companies working in renewable industry is to assure that every of its supply chain truly comply with the principles of environment protection. In another word, it is often referred to as greening the supply chain. Hasibuan-Sedyono (2007:2) in their study suggested that Business Group Z as the prime company of Company X, has attempted to create an environment friendly supply chain, both as supplier and buyer. As supplier, they try to apply the manufacture operation based on the world's best standard, including assuring the continuous improvement of



the plant activity by ensuring the implementation of health and safety standard for the workers and nearby environment. They have also achieved the ISO 9001:2000 certification for the quality management system.

Apart of that, Company X also runs mosaic plantation concept that is the adoption of High Conservation Value Forests (HCVF) protection as well as taking anticipative measures for forest fire and fogs it might cause by applying "No-Burn" policy. The company has also succeeded in implementing sustainable forest management and assuring that every company practice has been going on the path towards sustainability.

Meanwhile as a buyer, Company X applies tight control system on the sources of its raw materials from legal and valid sources, including from the people plantation forest. In addition, they also utilize the *pulpwood legal tracking system* to ensure that every raw material is attained from legal source and thus they don't obtain any wood of illegal logging.

Company X CSR transformation is the manifestation of various elements' total commitment. *Firstly*, the commitment of the owner and founder of Company X to conduct business as well as contributing the local people of Riau. This is part of the founder's business philosophy, which is not only business for the sake of business, but also to contribute to the community. *Second*, the guard of conceptual and methodological way of implementing CSR, which is the role of the community empowerment consultant, Consultant B. Third, it is the central role of the manager that runs the day-to-day operation and has full commitment to the community development program, who is native of Riau that is assigned as PPMR Director. *Fourth*, the commitment and trust of the top level management in 1999, which was the combination between senior and junior employees. This element prepares the support system such as finance, infrastructures and facilities. *Finally*, it is of course the role of field workers during PPMR and also subsequent to its transformation to ABCD Foundation.

Definitely this impressive transformation doesn't stop with the establishment of ABCD Foundation. There are still a lot of challenges to face in the future. *First*, the sustainability of institutional transformation and work distribution between ABCD Foundation and CSR department of Company X. Subsequent to the formation of the foundation, the CSR activities that are directly related to the company's activities was handled directly by CSR Department of the Company X. How to ensure that there is no overlapping between the two and keep maintaining their synergy each other remains an issue to address. The work distribution for this in line activity can be also seen from the perspective of the company's effort to optimize the contribution of the activities related to the core business.

Secondly, the organizational relations between ABCD Foundation and Company X should be cleared, particularly regarding their respective work definition and the issues of authority. However, the foundation is still related and has tie with Company X, despite its relative independence compared to during PPMR era. Apart of that, budgeting and budget control will remain an important issue.

Thirdly, how far will the ABCD Foundation give further positive image to the Company X. Despite its relative independence, it is quite normal if the company still expects that all positive contributions of ABCD Foundation could also affect to the company's existence and improving image in the community and in front of other stakeholders. Should this positive image be preserved or augmented will also motivate other companies to implement CSR program. This is recalling the fact that CSR

activities, instead of burdening the company, will in fact improving the financial performance of the company. It is at this point that the company's rational consideration can be made as reason to implement CSR.

Fourthly, the issue of accountability of ABCD Foundation to the public along with its institutional transformation. For that purpose, it is necessary to find a transparent and systematic way to inform about or disseminate its performance to the public as part of its responsibility. *Fifthly*, what is no less important is how the ABCD Foundation is capable to move other companies to do better CSR practice. It doesn't have to precisely imitate, but they have to also have the same spirit and good will and plan to do a more responsive and responsible business to the employees, community and environment.

Sixthly, the theoretical contribution to CSR institutional governance in a company (e.g. Husted, Allen and Rivera, 2008). CSR transformation of Company X gives lesson in the sense that whether the company should decide to *make*, *buy* or *being collaborative*. The decision to outsource CSR activity through company's philanthropic activities is a decision to spend some money to ask other party to do the CSR activity on behalf of the company (buy). If the company internalizes the CSR activity through direct projects it runs by itself, then it means the company is *making* by itself the CSR activity. The third choice applies several forms of collaborations between *make* or *buy* choice. In the case of Company X, this company has conveyed clear message that collaborative decision is the right choice for them. What about other companies? Definitely the decision to be taken is highly determined by the vision and mission, corporate strategic option, industry, product and also the service the company provides.

Other than contribution to CSR good governance, theoretically, Company X's CSR study has also contributed to the research agenda in the future concerning what Putnam (1993) calls as the role of *social capital*. It is how the networks of social relations and trust facilitate the creation of community cooperation, generate community's commitment to spend time, resources, being socially friendly and being patient to others. This is in particular refers to social relations with other parties that are not bounded with blood or kin relationship. The success of creating this social capital will contribute to the minimization of social conflict potential. In this context, the success of CSR activity of a company, including Company X, to some extent has generated the social capital through its community empowerment program, and this is the *seventh* point that ought to be further studied.

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